



City Center Update

Markets and Opportunities in Falls Church

City Council Work Session
September 2005



Overview: City Center Historically

- ◆ Broad and Washington Streets always referred to as “Downtown,” “Crossroads,” “Central Business District,” or “City Center.”
- ◆ Historically, the center of commerce in the City.
- ◆ Originally defined as four block area and expanded to 6-8 blocks through Street-Works proposal and recent activities.



Overview: Current Comp Plan and Zoning

- ◆ Comprehensive Plan and Zoning District have always defined this area as unique with higher density than the rest of the City.
- ◆ 1997 Comp Plan designated the area for Mixed Use Redevelopment (allows 20% residential by right).
- ◆ Allows 75' by right, 87' under MUR.



Update – City Center Comp Plan Process

- ◆ **September 22, 2005 – CC Worksession - Updates/Market**
- ◆ **September 26, 2005 - CC Public Hearing**
- ◆ **October 5, 2005 – CC Worksession – Fiscal Impact**
- ◆ **October 11, 2005 – CC Public Hearing**



Update - City Center Strategic Plan

♦ Strategic Plan

– Development Plan

- Comp Plan is just the first step-sets some very *general* policy parameters.
- Mix of uses, height, design NOT being decided now.
- These decisions will be vetted publicly with staff analysis including fiscal analysis.

– Market Identification

- 2 studies - Update to follow

– Financing Plan - Work Continues

– Transportation Plan RFP issued, proposals being evaluated.



Key Future Issues

- ◆ After the Comp Plan then the community and decision makers will address:
 - Civic Space/Great Place – How big? What happens here? Appearance?
 - Design – Character? Architecture? Building Materials? LID? Height?
 - Transportation – How it works? Realignments? Multi Modal station?
 - Environmental - Open Space? Linkages? Landscaping?
 - Historic Structures – Preservation?



Markets and Opportunities

Executive Summary

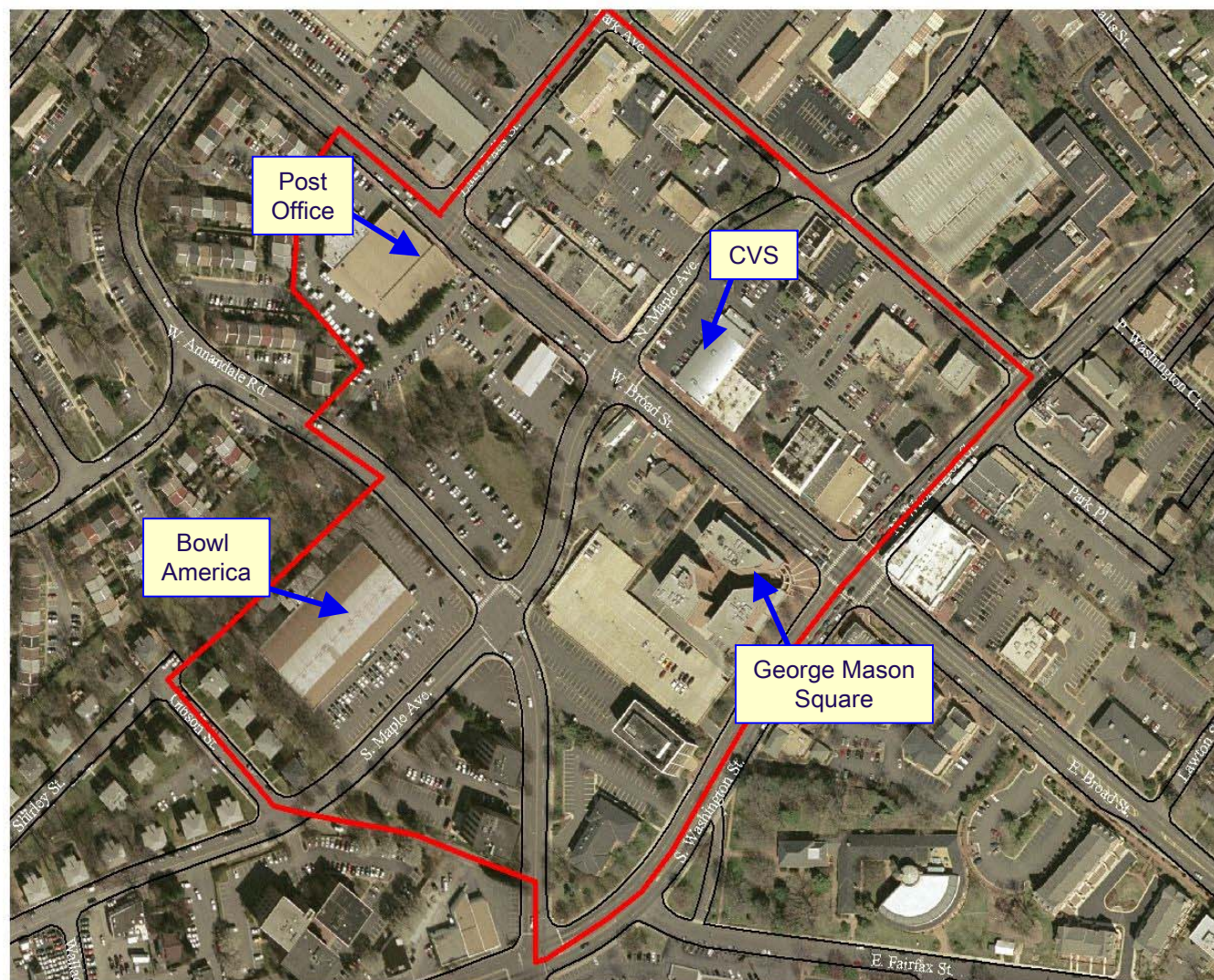
- ◆ **A review of regional economic trends and market conditions supports the mixed use approach.**
- ◆ **There is compelling data that a strong housing component is essential to a successful City Center project.**
- ◆ **Market guided flexibility is needed to achieve a sustainable and economically feasible City Center.**



Market and Opportunities - Overview

- ◆ City Center Area Today
- ◆ Market Realities
- ◆ The Office Market
- ◆ The Retail Market
- ◆ The Housing Market
- ◆ Summary

Overview: City Center Today





Realities: Area Land Uses Today

- ◆ 99,000 sf of retail space (including Bowl America with 32,000 sf).
- ◆ 200,000 sf of office space (including 91,000 sf at George Mason Square).
- ◆ Total floor area ratio (FAR) in 22-acre area: 0.3.
- ◆ FAR = 0.3 – about that of a single family home.



City Center Market Realities



Realities: The cost of land and parking.

- ◆ Land in Falls Church and the 22-acre City Center project area has escalated in value.
- ◆ Multiple property owners in a confined project area.
- ◆ Results in special challenges and costs.
- ◆ Parking is essential and needs to capture:
 1. The development potential of the land (highest and best use); and
 2. The maximum taxable value for the City (highest and best yield – regardless of use).

Realities: Other Similar Projects

MARKET COMMON

- ◆ 1.6 million sf
- ◆ 64% residential in Phases 1 and 2
- ◆ 79% residential following Phase 3



PENTAGON ROW

- ◆ 2.3 million sf
- ◆ 69% residential



Realities: Other Similar Projects

METRO WEST (PULTE at VIENNA METRO)

- ◆ 2.37 million sf
- ◆ 85.5% residential



MERRIFIELD TOWN CENTER

- ◆ 1.95 million sf
- ◆ 68% residential



Realities: Other Similar Projects

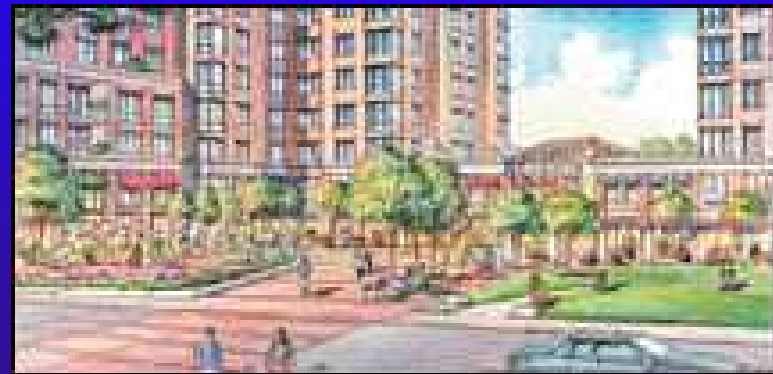
SILVER SPRING

- ◆ 1.25 million sf
- ◆ 55% residential



MIDTOWN SPRINGFIELD

- ◆ 1.157 million sf
- ◆ 79% residential

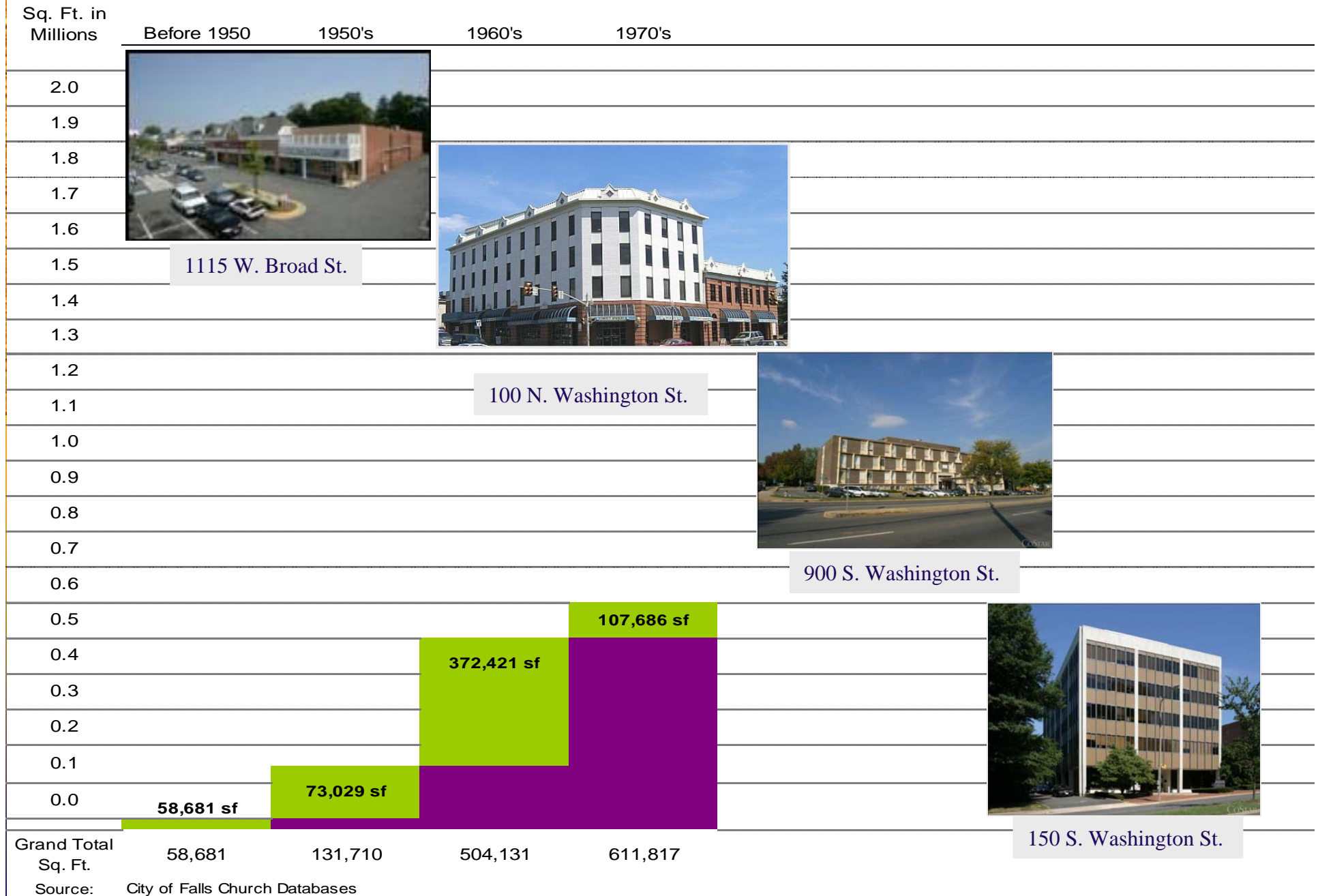




The Office Market

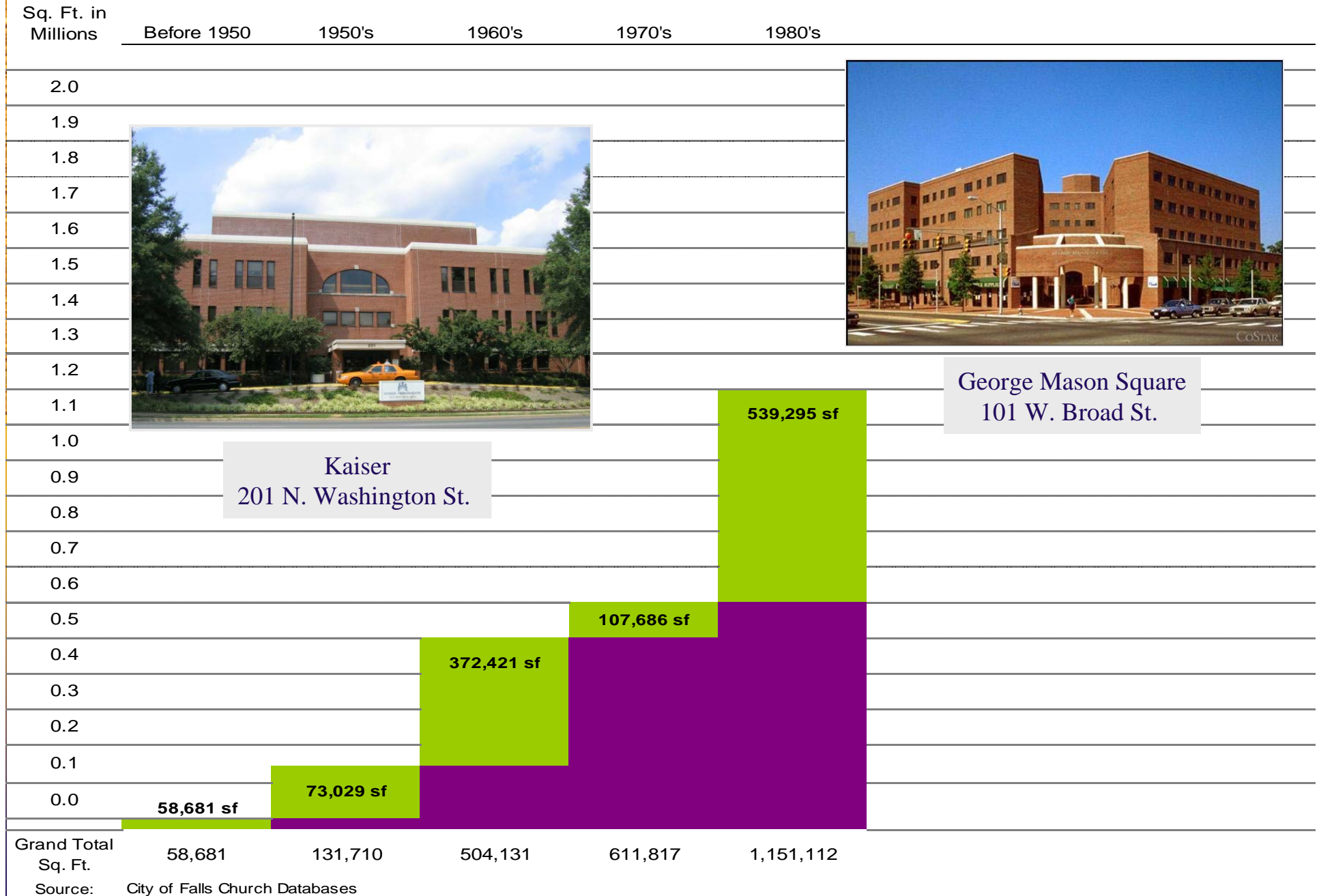
Falls Church Office Inventory

GROWTH THROUGH THE 1970'S



Falls Church Office Inventory

THE 1980'S



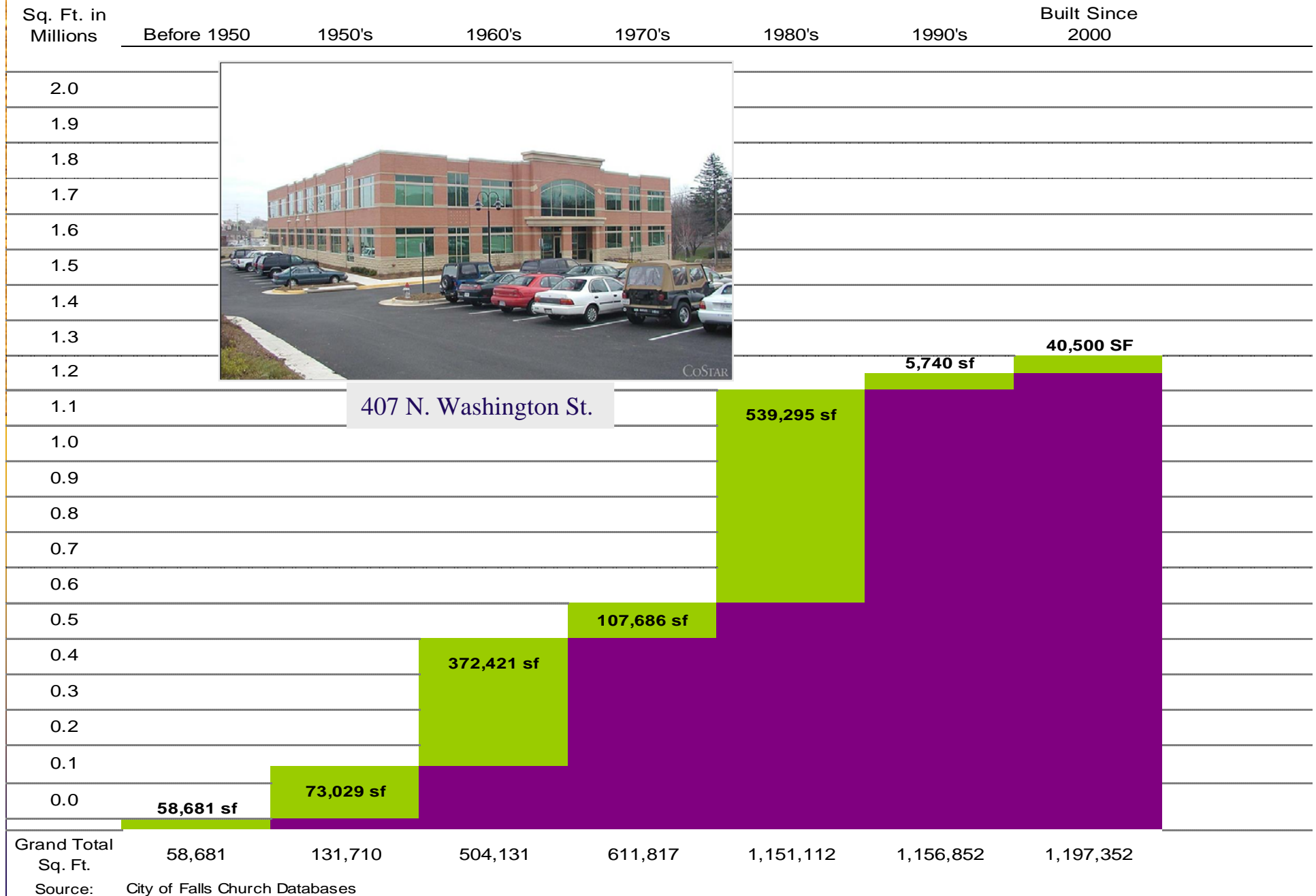
Falls Church Office Inventory

THE 1990'S



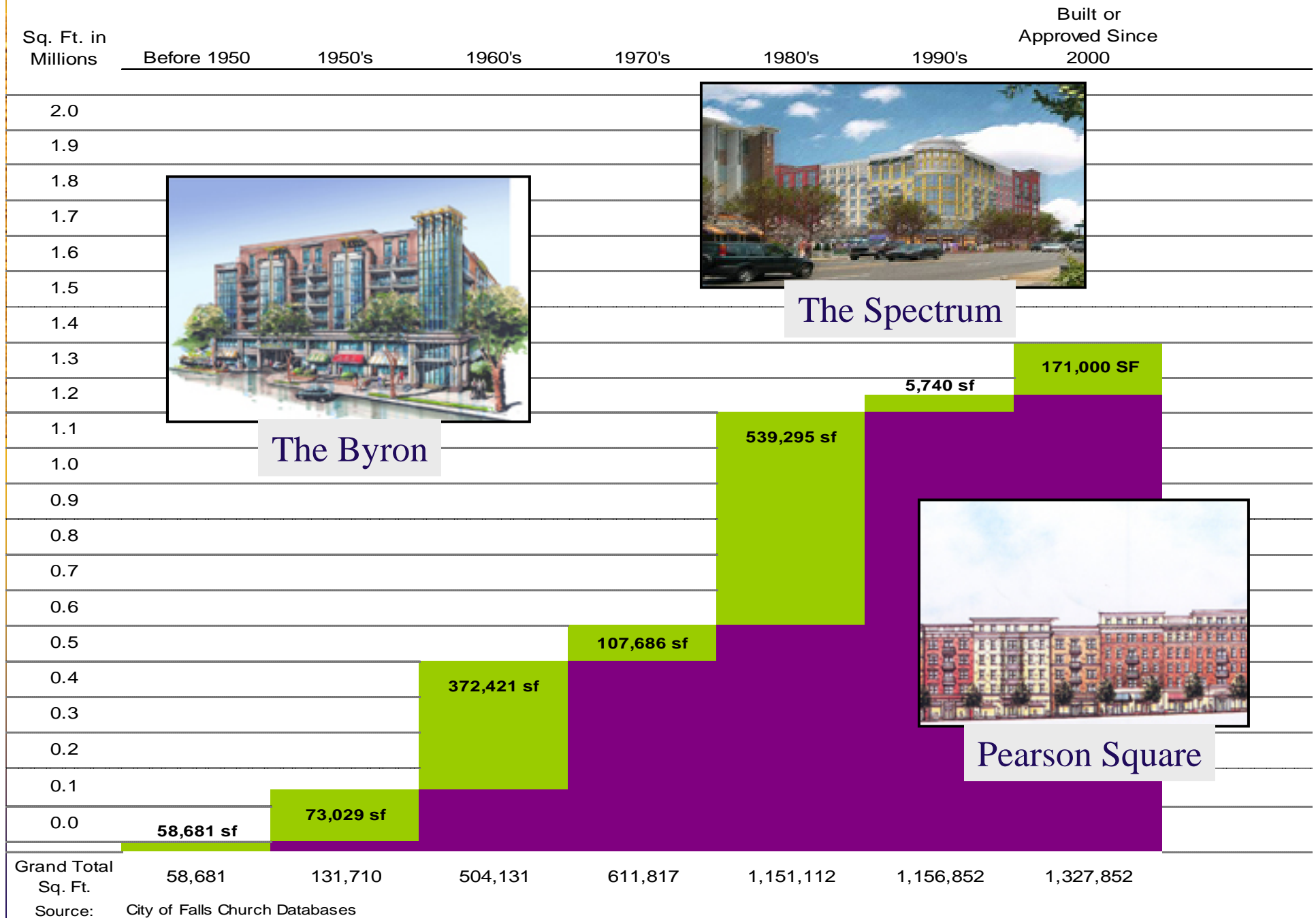
Falls Church Office Inventory

BUILT SINCE 2000



Falls Church Office Inventory

OFFICE UNDER CONSTRUCTION

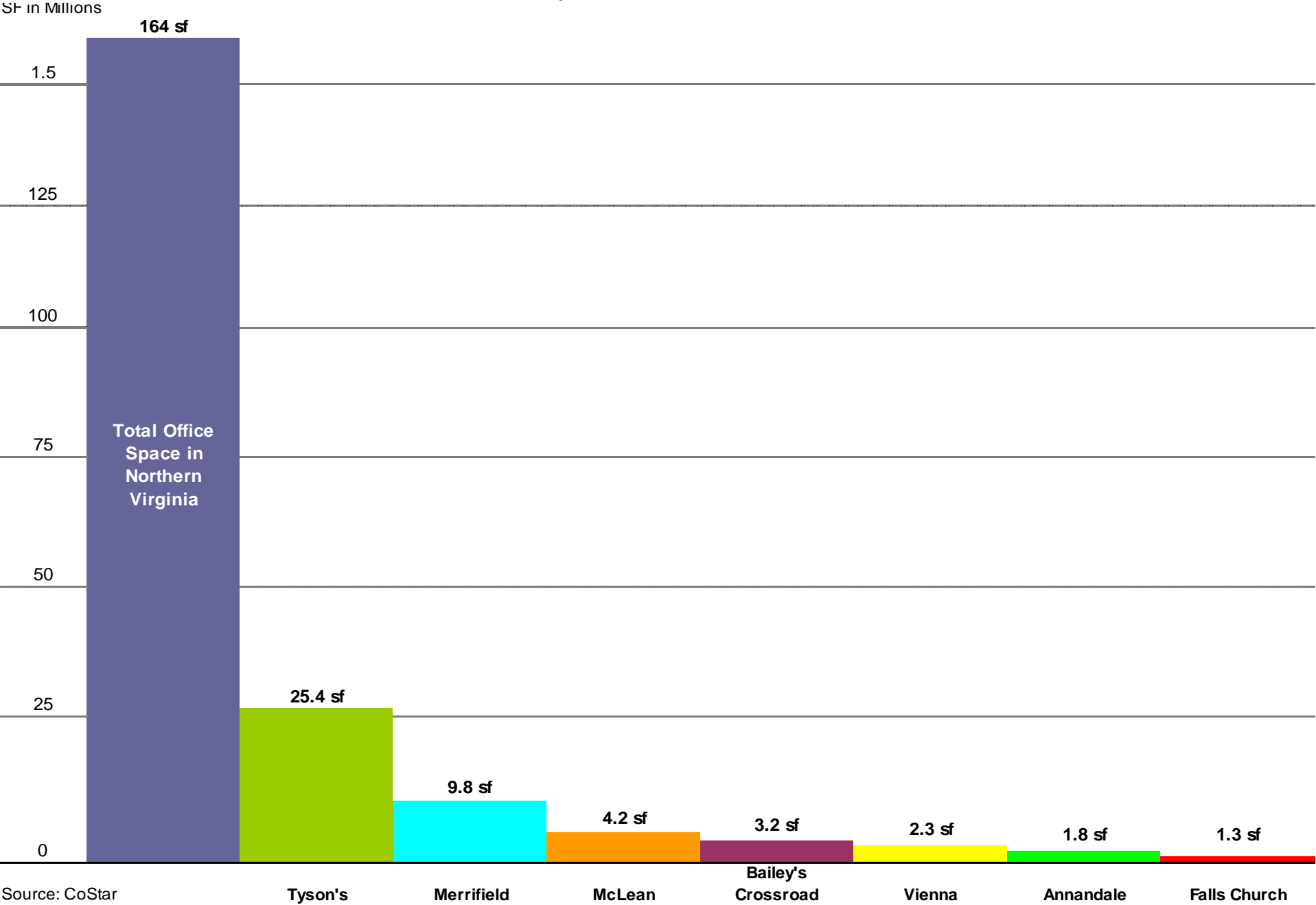




**How does Falls Church measure
up in the Northern Virginia
office market?**

Northern Virginia Office Markets

Competitive Submarkets





Realities: New Office Development

- ◆ Only 46,000 sf of new office built since 1988.
- ◆ 133,000 sf of new office already approved.
- ◆ Consultants suggest potential for 400,000 sf of new office space.
- ◆ Can 533,000 sf of new office in the City's submarket successfully compete in NOVA region?

Falls Church Office Inventory

POTENTIAL CITY CENTER OFFICE GROWTH

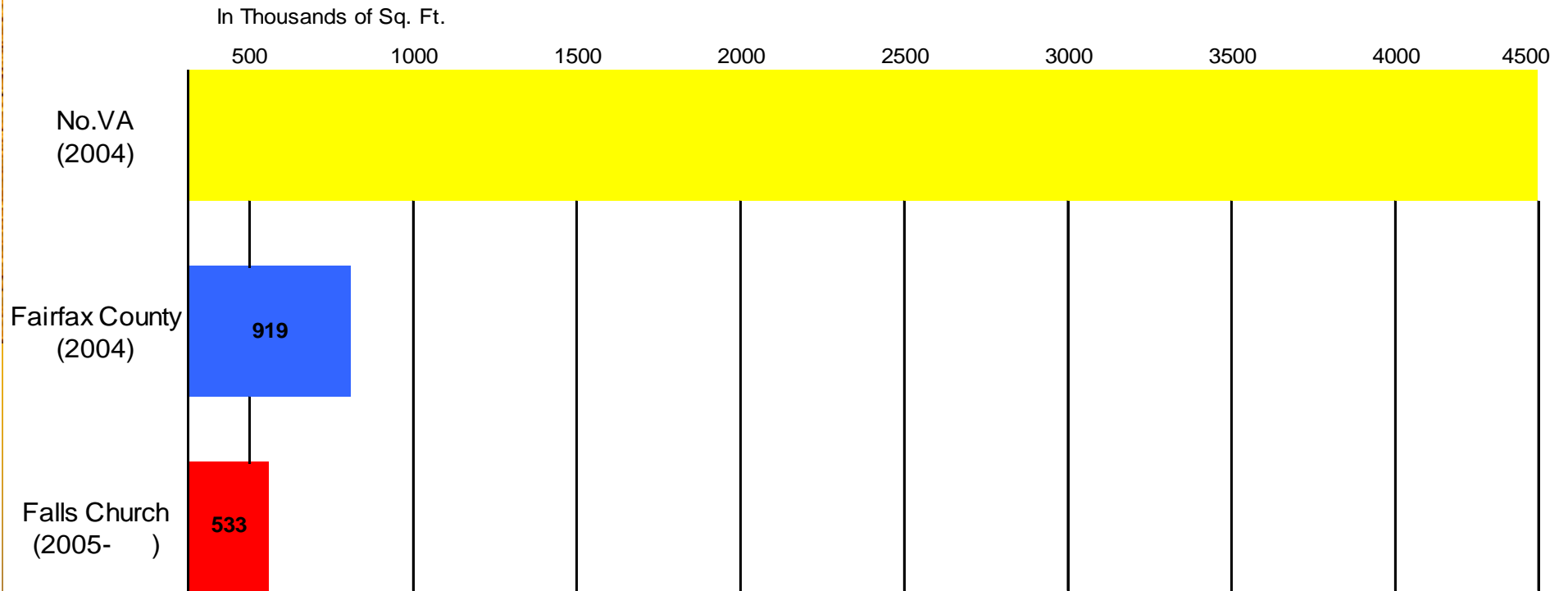




Realities: Regional Competition

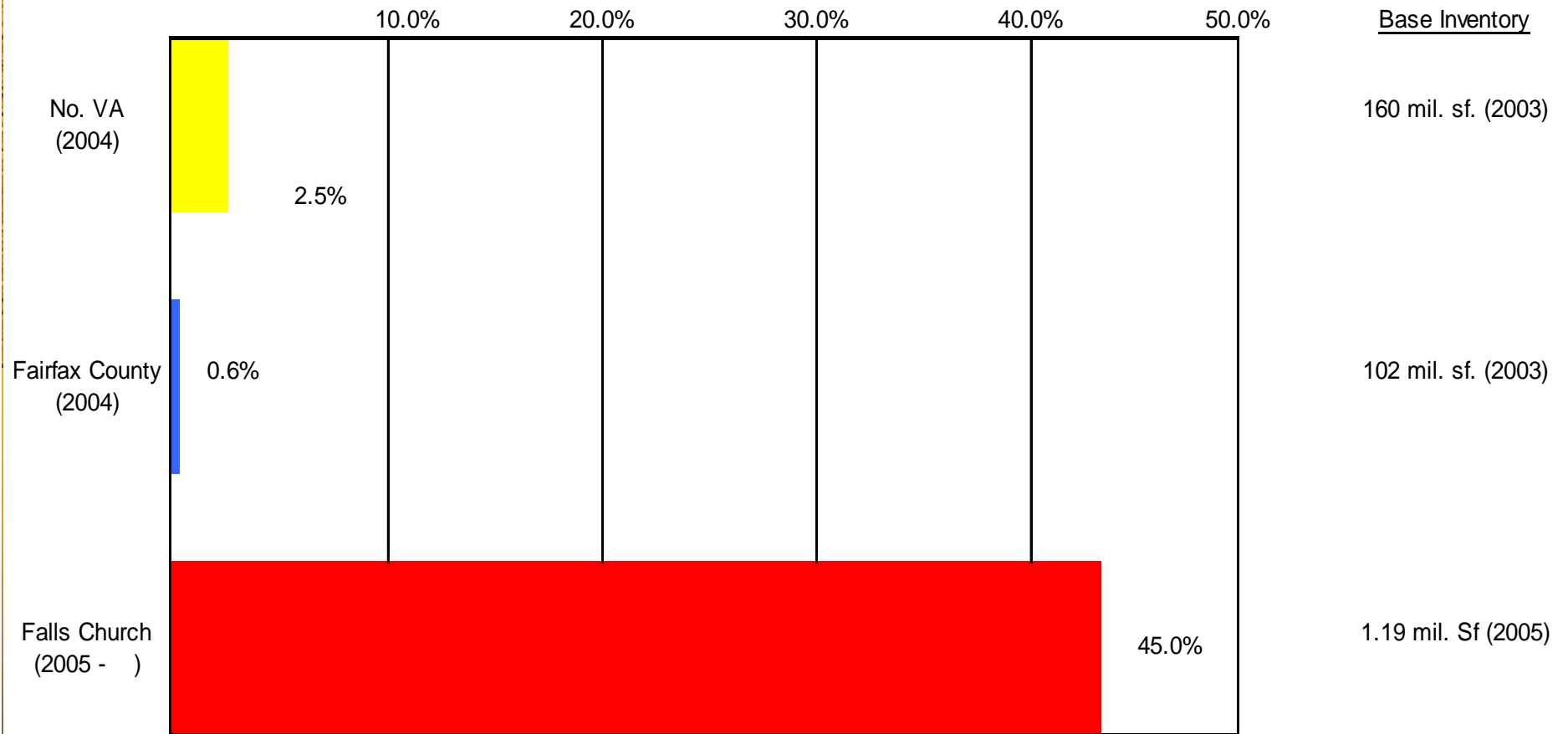
- ◆ In 2004, 4.5 million sf of new office space was introduced to the NOVA market.
- ◆ Only 919,000 sf constructed in Fairfax County.

New Office Inventory by Comparison



Sources: Fairfax County, CoStar, City of Falls Church

New Office Space as Percentage of Respective Markets



Sources: Fairfax County, CoStar, City of Falls Church



Realities: Office Absorption Rates

- ◆ The introduction of new office space into the Falls Church market has been sporadic.
- ◆ Historic Falls Church absorption rates, on average for the past 25 yrs, is 21,600 sf per year (about 2.5% per year).
- ◆ However, since 1988, only 7,921 sf per year of office space absorbed in the city.



Realities: Comparable Office Absorption Rates

- ◆ Fairfax County has absorbed, on average, 8.8% of its total inventory of office space since 1980.
- ◆ During this 25-year period, absorption in Fairfax County ranged from a high in 2000 of 13.7% to a low of 5.3% in 2001.
- ◆ Fairfax County's rate of 8.8% per yr and their market position raises serious questions whether the City can successfully compete (at 2.5% per year).



Realities: Land Costs

- ◆ “Developers will not pay more than \$50 per square foot for land on which to build offices in Northern Virginia.”
 - Staubach and Company commercial broker
- ◆ The 2005 average assessed value of property in the 22-acre area targeted for City Center is \$74 per square foot.



Realities: Market Opportunity

“Situated between the high cost and high density office markets in Tyson’s Corner and Rosslyn-Ballston, there are opportunities for the city to attract firms and organizations that want an urban environment at a somewhat smaller scale but of sufficient density to support costs of similar amenities and structured parking.”

“Falls Church could cater to firms that are doing work for the government, and possibly smaller trade associations and non-profit organizations...that require smaller floor plates or desire unique office space.” Smaller sized federal contracting firms and associations might fit this potential.”

-- Dr. Stephen Fuller, Falls Church Big Picture Study, 2005



Realities: Office Strategy

- ◆ **Mix of uses**
- ◆ **Phased approach**
- ◆ **Compatible scale**
- ◆ **Focus on smaller firms and niches**
- ◆ **Diversity of tenants**
 - **Less risky to have 20 tenant companies with 10 employees each than one company with 200 employees.**



The Retail Market



Realities: Retail Market

“One of the important points is that in order for the city to have growth in its retail sector, it needs growth in both households and employment, primarily through redevelopment at higher densities...and, the form that new retail space takes will also be important; i.e., if new space can attract some of the external demand, it needs to be clustered to be more attractive to spenders.”

-- Dr. Stephen Fuller, Falls Church Big Picture Study, 2005.



Realities: Existing Retail Inventory and Market Demand

- ◆ 303 retail, restaurant and entertainment businesses.
- ◆ Total existing space: 730,000 – 750,000 sf.
- ◆ Approx. 2% vacancy rate.
- ◆ Byron, Spectrum and Pearson Sq. will add another 64,000 sf.
- ◆ Unmet retail demand from primary and secondary markets justifies 52,600 sf of new retail space by 2010.

Sources: Retail Compass, LLC (2005) and GMU Center for Regional Analysis Big Picture Study (2005)



Realities: Existing Retail Conditions

- ◆ Falls Church is an “in-between” retail market within the region.
- ◆ Strong competition in our trade area.
- ◆ Retailers have bypassed Falls Church for several reasons:
 - Lack of quality retail space and parking
 - National tenants protect existing locations at nearby centers
 - No concentrated retail center
 - Inhospitable retail conditions along Route 7.

Source: Retail Compass, LLC (2005).



Realities: Factors That Could Spur Additional Retail Growth

- ◆ **Development of a City Center that will include:**
 - **Creation of a “great place” with a “main street”-style shopping center experience.**
 - **More residents.**
 - **New office and retail workers.**
 - **A hotel.**
- ◆ **Collectively, these factors may generate an additional 157,500 sf of retail demand, for a total of 210,000 sf in City Center alone.**
- ◆ **Preliminary developer interest far exceeds this amount!**

Source: Retail Compass, LLC, 2005.



Realities: Building the Right Mix

“Falls Church cannot depend on external markets to drive desired growth. The City has to take the lead by encouraging a balanced mix of uses that are market based. Residential, office and retail uses in the right mix for the Falls Church market can be a highly sustainable combination.”

-- Dr. Stephen Fuller, Big Picture Study, 2005



The Housing Market



Realities: Jobs and Housing

- ◆ **Regional shortage of housing stock and escalation of housing prices will continue.**
- ◆ **An increase in commuting and congestion costs has placed higher premiums and value on close-in locations.**
- ◆ **New housing is an essential component of economic development strategy.**

Source: Dr. Stephen Fuller, Big Picture Study, 2005.



Realities: Jobs and Housing

- ◆ **New resident incomes will be spent locally and will provide the necessary ‘night-time population’ for business.**
- ◆ **Residents of a City Center spend 3 times as much as people who work in a City Center.**
- ◆ **The region’s strong housing market is fueled by the economy and job growth, which has consistently outperformed all other metropolitan areas of the U.S. over the past five years.**

Sources: Dr. Stephen Fuller, Falls Church Big Picture Study, 2005 and Virginia Review Government and Finance, July-August 2005



Summary

- ◆ The 1997 Comp Plan, Zoning Ordinance, MUR designation and by right development opportunities have not stimulated redevelopment.
- ◆ Land and parking costs heavily influence the mix of development.
- ◆ Successful town centers have a large residential component.



Summary

- ◆ 533,000 of new office is very aggressive when compared to other NOVA markets.
- ◆ Increased retail potential is directly linked to a mixed use City Center development.
- ◆ Housing is needed for economic and social vibrancy of City Center.
- ◆ The market should dictate the mix that is most sustainable for the City's future.



Summary

- ◆ “Tomorrow’s viable City Center must have a strong housing element among the mix of uses in City Center. Without that element, it is not realistic to expect the private sector to build office and retail space, with adequate parking, that commands Class A rents in our submarket.”
- ◆ “Creating a variety of housing options in City Center will not only reduce the risk for the developers we choose to partner with, it will reduce the city’s risk of creating too narrow a development program to sustain over time.”

- Source: Dr. Stephen Fuller, 2005